THE CHANGING STRUCTURE OF THE LAND DEVELOPMENT INDUSTRY IN THE TORONTO AREA

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Preface

The operation of an urban housing market, the production of new housing and the conversion of land to urban use, involve the interaction of a large number of individuals, institutions and corporations. In this highly complex process one of the key actors is the developer and the development corporation.

This paper reviews the characteristics of the actors involved in, and the attributes of the land development process, with emphasis on residential development in the Toronto urban area. It examines the post-war evolution of the land market and the development industry, the reasons for the emergence of the large integrated firm, the corporate strategies of such firms and the question of monopolies and market power. The paper concludes with an assessment of some of the implications of corporate concentration in the development industry on the location, mix and costs of housing, on industrial innovation and on planning policy.

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L.S.B.

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THE CHANGING STRUCTURE OF THE LAND DEVELOPMENT INDUSTRY IN THE TORONTO AREA

The complex of organizations that we call 'the housing industry' has produced over half a million dwelling units in the Toronto area in the past twenty years, more than 300,000 of these in the last decade alone. While the market mechanisms that link the producers and consumers of this vast output remained largely unaltered during the postwar period, both sides of the market have undergone significant internal changes. On the production side of the market, one unusually striking change has been the evolution of the land development sector. Beginning as a loose collection of many amateurs, individual investors and small companies, land development has become a mature industry dominated throughout by large public and private corporations. This report examines the change in structure of the land development industry and its impact on the operation of the Toronto housing market.

THE LAND DEVELOPMENT PROCESS

Roles of the Developer

Viewed at the level of the individual land parcel the development process can be seen as a complicated set of linked decisions resulting in the conversion of the parcel from one land use to another. Changes in the land use pattern of an urban area are the direct result of decisions made by those people that own land, the 'primary' decision agents: farmers, speculators, developers, builders and consumers (public, corporate and household). Decisions by primary agents are influenced by decisions taken by non-landowning, 'secondary' decision agents:

lenders, real estate agents, lawyers, planners and civil servants (Martin, 1976b, p. 4). Of the many actors involved in the land conversion process, however, it is the developer who plays the key role.

Those actors who hold rural land prior to its acquisition by a developer do so in order to use the land for a non-urban activity, such as farming, or in order to take advantage of expected land value appreciation and so realize a capital gain on that land. The developer is the actor who decides to convert the land to an urban use and in so doing acquire the rent to urban land that has not already been capitalized by earlier owners. The development process for land already in an urban use (redevelopment) follows a similar procedure except that the pre-conversion activities are already urban and the developer seeks to capture the rent from a more intensive use. A developer could purchase and convert land for which the entire amount of this differential return has been acquired by previous owners and still earn the 'normal' profit on the entrepreneurial services that he provides. It is more likely, however, that the developer searches for land that is 'undervalued'. This undervaluation on the part of the previous owners is made possible by their poor judgement or inexperience, their lack of information concerning possible conversion of the land, and government actions, or inability to assume the risks of land conversion themselves. In some cases a particular development scheme will realize a rent to urban use above the levels associated with the development plans of competing land

purchasers. In this case the land parcel is thus 'undervalued' only with respect to a particular developer.

While we have defined a developer as the agent who initiates the actual conversion of land to a new use, developers also assume the roles of some of the other actors in the conversion process. A developer is a land speculator in that the timing of his land purchase and sales decisions are affected by his expectations of the future price of land (Carr, 1975, p. 326). As well, much of the land used by developers is held in an unaltered state for a number of years prior to its conversion. Developers do not often sell land to other developers or speculators (although this is not unknown) because selling before the maturity of the asset (conversion in this case) would require a discount to compensate for the still uncertain conversion value of the property (Hirschliefer, 1972, p. 147). Beyond the conversion process itself, developers often take on roles as planners, builders and realtors.

Most interactions between primary and secondary agents that affect the ultimate shape of the land use involve the developer as the primary agent. Lenders obtain most of their input into the conversion process through the requirements that they impose on developers' plans before making funds available. Government agencies and developers negotiate many aspects of the proposed land conversion when the developer seeks the governmental approvals required before proceeding. Negotiating with government agencies is the exclusive province of the developer

and is one of his most significant roles in the conversion process.

Thus it is the developer who makes the major decisions concerning the location, timing and initial use of converted land, subject to the dictates of both the market and the government. He does not, however, merely reflect consumer demands and government regulations. Rather, he imposes his own decision framework on the process, a framework that involves not only his perception of the market but also his bargaining power with respect to suppliers, consumers and government agencies, his own unique production function and his overall corporate strategy (Kaiser, 1968, p. 360).

Another factor in the land development sector's key position in the housing industry is its high degree of concentration relative to that of other primary agents. As the housing industry involves highly interdependent sectors, concentration of ownership or production at any intermediate stage in the chain may influence the final product and its price even if all other sectors are perfectly competitive. The bargaining power of developers relative to all other agents is further increased by the non-substitutability of, and hence the highly inelastic demand for, their principal output, serviced land (Burns, 1970, p. 131).

Larry Martin's study of land transactions between corporations on the north-east fringe of Toronto (an area which has not attracted large developers nearly as much as more active areas) revealed 668 different corporate land owners. Of these, 403 were pre-development owners (i.e. land dealers, etc.), 108 were post-development owners (i.e. builders), while only 49 were classified as developers. If the many non-corporate

land owners, both pre- and post-development, were also included, the key position of the development sector would be further emphasized (Martin, 1976b).

Competition in the Urban Land Market

The urban land market involves some unique features which must be noted prior to any discussion of the effects of concentration in the land development industry. First, there is a marked complementarity between new housing for sale and resale housing so that few buyers exhibit strong preferences between the two (although some preferences concerning age of neighbourhood might be noted). It seems likely, however, that (following Nowlan, 1973 and others) the supply and demand conditions in the new-housing-for-sale market set the price in the market for all owner-occupied housing, although the price does not respond as quickly as it would if housing could not be resold. A second complication is the relationship between the markets for housing for sale and housing for rent. This relationship is weaker than the one between new and resale housing, but the rental market (which is probably more competitive than the new-housing-for-sale market) certainly sets a price limit for new housing.[1] However, consumer preference for home ownership (for investment reasons among others) may set this limit so high that it has little real effect overall.

Market power in an industry is made possible by the existence of significant barriers to entry into the industry, not simply by the existence of concentration. However, in the urban land market, the supply of raw land is effectively constrained by physical factors (e.g. distance to employment functions, terrain) and institutional ones (e.g. zoning), so that concentration itself constitutes a barrier to entry (Markusen, 1975, p. ii). Other, more conventional barriers to entry to the land development industry will be detailed later. To the extent that the supply of suitable raw land is constrained, price competition between developers may be limited by the fact that, while a relatively low price may result in an earlier sale, the productive capacity of a 'low price' producer will eventually be exhausted. Firms which can afford to 'wait out' such competition may be able to ignore this type of price competition (Schmid, 1968, p. 40).

There is also the question of spatial monopoly. As every urban land parcel is uniquely located and residential land derives most of its value from its location relative to other land uses, urban land may not be sufficiently homogeneous to be offered in a perfectly competitive market. The concept of spatial monopoly is certainly viable in the context of land which has been developed for some time, and becomes increasingly relevant with increasing proximity to nodes of economic activity, particularly the city centre. However, its application to undeveloped land is much less clear. There is no spatial monopoly associated with any land parcel for which the potential buyers of the parcel do not perceive a relative locational advantage. In terms of location, a consumer may be indifferent

to similar house lots roughly equidistant from his or her location of employment, and the further from this location, the broader the zone of indifference becomes. However, there may be methods for developers to hasten the process whereby a land parcel acquires a 'monopolistic' locational advantage.

THE EARLY POSTWAR DEVELOPMENT INDUSTRY

During the first decade of the postwar period the structure of the development industry was radically different from its present pattern. Development firms were small, consisting of individuals, partnerships or small companies. Developers were generally equity poor and cash poor. Too small or too rapidly growing to accumulate large equity positions, developers preferred to use their limited capital to expand operations through borrowing. Outside equity capital found little attraction in real estate during this period (Clawson, 1971, p. 71). While eventual profits might be high, land development produces expenses, in the form of interest, commissions, legal fees, etc., much sooner than it produces revenue. This placed the small, undercapitalized developers in constant liquidity difficulties and forced reliance on expensive interim financing. Holding land for any appreciable period of time was expensive.

A second constraint on the size of developers' operations was the obvious high risk created by short-run fluctuations in the housing market. The almost exclusive use of subcontractors for all physical aspects of the conversion process was necessary in order to avoid the heavy losses that

would be incurred by idle capacity if suitable raw land became temporarily unavailable or a market slowdown occurred due to mortgage rate changes. As well, entire projects could be idled by the shortage of skilled workers and contractors in any one of the many construction subtrades.

Thirdly, economies of scale were not easily exploited by the early postwar development industry. Building construction technology and management were such that little or no scale economies were experienced in house building at the level of individual subdivisions (C.M.H.C., 1951, p. 16; Carver, 1948, pp. 66-67). As well, land development was, and remains, a largely entrepreneurial field involving many non-routine decisions that must be made at the executive level. In the absence of modern management techniques and well trained, second line managers, managerial diseconomies were experienced by most development firms once operations began to grow beyond the 'one man' scale.

The general practice of early developers was to acquire a small amount of land (i.e. a single subdivision) through options and mortgages using a minimum amount of cash. Most, if not all, of the physical aspects of the conversion process were subcontracted outside the firm. The serviced lots were commonly sold to builders, who then saw to the construction of the dwelling and its sale to the consumer. Municipalities made few physical planning requirements or regulations concerning the locations of new subdivisions, usually specifying only minimum lot size and servicing standards. Both trunk and local services were usually

provided by the municipality. Developers had little choice but to subdivide and sell their land as soon as possible after acquiring it in order to avoid tying up their limited capital resources. Few developers had enough equity capital to operate more than one subdivision simultaneously or to participate in more than one geographical market area.

EMERGENCE OF LARGE LAND DEVELOPMENT FIRMS

The change in the structure of the land development industry arose in direct response to an increase in the advantages of corporate growth in this sector, coupled with the emergence of new techniques that made such growth possible. Some of these incentives to growth are new developments, others are innovations in corporate strategy which were merely slow in reaching the development industry.

Incentives to Corporate Growth Arising from Government Policies

It is not difficult to see a relationship between the growing involvement of all levels of government in the land development process and the concomitant growth of large land development corporations. Both the municipal and provincial governments have made serious attempts to regulate the spatial expansion of the Toronto housing market beginning in the mid-1950's. These actions have been motivated by a desire to preserve agricultural land and open space in the area and to prevent 'leapfrogging' and sprawl. Perhaps the most important consideration has been the attempt by governments to reduce their expenditures for trunk services by limiting development to those areas where services have already been provided.

Hence some areas have been placed in greenbelts or otherwise frozen for development, while others have been given development designations and infrastructure, trunk sewers being the most important of these (no septic tank subdivisions have been approved by Metro since 1955). Simply the public announcement of government intentions to limit growth in an area may be sufficient to restrict the land supply (Martin, 1976a, p. 17; Spurr, 1976, p. 82).

There is ample evidence that the exercise of regional planning controls has had an effect on the spatial path of land development in the Toronto area. Perhaps the most dramatic example available is the presence of large apartment complexes at the boundary of Metropolitan Toronto standing opposite the undeveloped farmlands across the street (Ontario Economic Council, 1973, p. 87). These restrictions have forced developers to adopt new raw land acquisition strategies. Whereas previously developers could purchase a small acreage and begin to subdivide it with minimal municipal interference, developers must now operate in a market where the supply of developable land is severely restricted by government policies, and the exact location and timing of development designations are not known well in advance.

This makes it necessary for developers to purchase large amounts of land in the fringe area and then press for development approval. In obtaining such approval the ability to provide services that are normally provided by the municipality is an asset. Even with this ability, the developer must hold large amounts of land for a number of years if he is

to be certain that a sufficient amount of his land will be approved for development when he needs it. In order to implement such a land acquisition strategy a large, well financed corporation is required. In his study of the land development process Peter Spurr noted,

> Regional planning is focussing growth at relatively few manageable locales... Large scale projects are encouraged at these locations, as both market forces and planning tendencies favour compact integrated communities with industrial, commerical and recreational facilities accompanying new residences. In recognition of the financial implications of this expansion form, large specialist development firms have formed and assembled tracts in the designated or likely growth areas. This mixture of concentrative forces tends to limit competition from smaller, dispersed sites where entrepreneurs and governments cannot achieve comparable scale economies in development.
>
> (Spurr, 1975, p. 180)

Even in areas designated for development, the process of obtaining government approval for subdivision has changed a great deal. First, developers are now required to provide, or to pay levies towards, most local services that were once provided by the municipality, often including sewers, roads and schools. These represent additional heavy investments required before returns from lot sales can begin. Second, the subdivision approval procedure itself has become more elaborate and time consuming. The average time required to obtain municipal approval for subdivision in the Toronto area is now two to three years, and longer delays are not unknown. This waiting period is in addition to the time required by the developer to prepare the plans for submission. Municipal approval delays arise from the complexity of the procedure (see Derkowski, 1975 for a review), shortages of municipal staff and intentional stalling

on the part of the municipal planners in order to wring concessions from developers (Martin, 1976a, pp. 22-23). Land supply restrictions may also arise from interagency conflicts of policy and artificially high servicing standards imposed by some municipalities. These factors have added substantially to the inescapable costs of holding land prior to its conversion and to the complexity of corporate production planning. In order to minimize reliance on expensive interim financing and to be able to allocate corporate resources efficiently, a long-term planned approach is required. This is only possible with the substantial financial resources available to large corporations (Shear, 1972, p. 73).

Other government policies have also played an indirect role in changing the structure of the land development industry. Government insured mortages attracted a volume of investment sufficient to interest large-scale organized lending institutions. These conservative lenders showed a preference for investing in large projects undertaken by experienced management in order to reduce risk and loan administration costs (Spurr, 1975, p. 193). More recently, the elimination of real estate as a tax shelter for non-real estate income and changes in estate taxes, capital gains taxes and depreciation recapture provisions have reduced the desirability of real estate as a personal investment. The implementation of the Ontario land speculation tax in particular has reduced the liquidity of investment in physical land without altering the liquidity of investment in non-controlling shares of public real estate companies. The effect of these changes has been to encourage small investors to participate in real estate not through direct involvement, but through public corporations (L. Smith, 1976, pp. 124-125).

Private Market Economies of Scale

Private forces at work in the land development sector have no less significance for the structure of the industry than public ones, however. In fact, Grebler (1973a, 1973b) and other observers have attempted to explain changes in the structure of the development industry in the United States, similar to those occurring in Canada, solely in terms of a maturing private industry.

One of the principal advantages of large size for land development firms is the resulting ability to carry on operations in different localities. In this way developers may avoid the structural and cyclical disturbances of a single area, and are able to shift their operations from less active to more active markets. This ensures sufficient activity to support a large organization in the event of isolated market slowdowns. Although a single-market developer can operate only one or two projects at a time, a multi-area firm can overlap projects, resulting in an increased continuity of operations, cash flow and profits (Grebler, 1973b, pp. 109-110). Table 1 indicates the various areas in which public developers participating in the Toronto area residential market have been known to be active.

Maintenance of a relatively high volume of housing production allows such developers to take advantage of economies of scale in construction, either through their own construction division or through their builders. At the level of the individual project, economies of scale arise from a number of sources: 1) bulk purchases of materials;

Table 1

Geographical Diversity of Development Company Operations

Company		Quebec City	Montreal	Ottawa-Hull	Oshawa-Whitby	Toronto*	Hamilton	Guelph	Kitchener-Waterloo	St. Catherines	London	Winnipeg	Regina	Edmonton	Calgary	Vancouver	U.S.A.
Abbey Glen	1		✓	✓		✓	✓						✓	✓	✓	✓	
	2					✓						✓	✓	✓	✓	✓	
	3	✓				✓							✓	✓	✓	✓	
Alliance	1					✓			✓								
	2			✓		✓			✓								
	3					✓					✓						
Bramalea	1		✓	✓		✓	✓	✓	✓		✓			✓	✓	✓	
	2					✓											
	3					✓	✓										
Cadillac Fairview	1			✓	✓	✓	✓										✓
	2			✓		✓	✓										
	3	✓				✓	✓		✓	✓		✓		✓	✓	✓	✓
Consolidated	1				✓	✓											
	2					✓											
	3																
Costain	1			✓		✓			✓	✓							
	2			✓													
	3																
McLaughlin	1					✓											✓
	2					✓											
	3					✓											✓
Markborough	1				✓	✓									✓		✓
	2					✓											
	3					✓							✓				✓
Revenue	1					✓											
	2					✓											
	3		✓														

Note: A check in first row indicates participation in land sales; check in second row indicates ownership of apartment buildings; a check in third row indicates ownership of non-residential income-producing properties.

*Toronto area includes Ajax, Pickering, Uxbridge, Markham, Richmond Hill, Unionville, Brampton, and Mississauga.

Sources: Spurr, 1975; company reports.

2) lower bids from subcontractors in order to be able to enjoy increased continuity of operations; 3) more efficient work organization on site; 4) opportunities for workers to become more experienced with certain house models and hence to work more quickly and efficiently; and 5) lower fees for professional services such as planning, engineering and architecture.

Reliable, comprehensive data concerning economies of scale in house production are difficult to acquire because of the uniqueness of every project in terms of house design, terrain, location and timing. The most complete studies that are presently available are all long out of date (see Maisel, 1953; Cassimatis, 1969; W. Smith, 1973). These studies all document significant economies of scale up to the highest volume class studied. There is no reason to believe that this situation has reversed in the meantime, although the range of outputs over which economies of scale are presently experienced, and their current magnitudes, cannot be inferred from 1962 data (as example, see Table 2).

Observers have placed the optimum number of houses in a single project at anywhere between 100 and 1,000 or more. Bulk purchase discounts may be exhausted at the truckload or carload level (about 50 houses); however, labour 'learning' and standardization economies extend well beyond this. Present practices of large builders suggest that scale economies exist at least up to 500 to 800 houses per project (W. Smith, 1973, p. 237). At present, most producers limit single projects to about 500 units per year although this limitation probably arises from marketing

Table 2: Costs and Output in House Construction, United States, 1962

Output per firm # of houses	Cost per house	Cost per square foot
<50	$15,302	$12.28
50-99	15,309	11.83
100-199	13,647	11.28
>199	13,487	11.09

Source: Cassimatis, 1969, p. 65.

and risk considerations rather than from diseconomies of scale (Levitt and Sons, Inc., 1968, p. 69).

The economies of scale in house construction described here are conventional ones in that they arise from increases in the volume of production without the introduction of basic changes in technology. Industrialized, or systems, building technology theoretically affords significant scale economies in house construction, but it has not yet met with successful application in Canada on any large scale. One reason for this is that in Canada's largest housing market, the Toronto area, the building subtrades have become increasingly well organized during the postwar period. Refinement of conventional construction techniques has occurred to the point where traditional methods have been rationalized in a way "probably unsurpassed in North America" (Ontario Housing Advisory Committee, 1973, p. 30). Such improvements decrease the incentives for the introduction of systems building. However, some land development firms have been able to take advantage of the opportunities that large projects afford for standardization of component parts such as factory-built windows, prefabricated roof trusses and pre-hung doors. In the Bramalea development, widespread prebuilding was used to reduce construction costs (Levitt and Sons Inc., 1968, p. 69; Magee, 1968, p. 25).

Significant economies of scale available at the individual project level may be realized in the marketing process. Large projects, particularly long term, community-size developments, allow the profitable use of broadcast media and image or 'lifestyle' advertising. The recreation and planning amenities provided in the large projects have become standard

devices for encouraging sales, having met with widespread consumer acceptance. Not only is the per unit cost of such advertising and amenities reduced by the size of the project, the 'drawing power' of the development allows for the efficient use of less localized advertising media. At the Meadowvale project in Mississauga, advertisements in magazines, on television and radio drew over six times as many visitors to the site than did conventional advertisements in local newspapers (Stimulus, May 1973, p. 20).

The use of model homes and the provision of attractive sales offices have also been found to be productive marketing tools. Effective use of such techniques requires a substantial investment of money and experience, costs more easily defrayed over larger projects (House and Home, August 1973, p. 78). With the growth of large, visible corporations, corporate image has become important to consumers (Canadian Builder, September 1976, p. 24). A large firm with many projects can build up consumer confidence and 'brand recognition' simply by using a skillful media campaign. Multiarea operations allow the use of non-local media for ongoing corporate relations programs.

Additional scale economies arising at the project level occur in the subdivision approval process. In the Toronto area the proposed size of the subdivision does not affect the amount of time required to obtain official development approval for it. Thus the delays, and therefore the holding costs, arising from the approval process are reduced for larger subdivisions on a per acre basis (Kates, Peat, Marwick, 1973, p. B-1).

Not only do large developers have the resources enabling them to hold the large land inventories necessary for efficient operation, it is also easier for a large developer to obtain this inventory in suitable parcels. Even in the case where the project does not involve building an entire new community, large tracts of raw land are usually preferable to small ones as investments. Small parcels force conformation with the local road pattern and are vulnerable to negative externalities arising from nearby land uses. Large tracts allow the developer more planning flexibility and provide opportunities to shield property values from externalities through the creation of buffer zones (Hoyt, 1967, p. 4). As well, realizing the economies of scale in house production detailed earlier requires sizeable land parcels.

Large firms can more easily obtain such advantageous tracts because land dealers usually prefer the security offered by large firms (as most land purchases are made through takeback mortgages) which can also usually offer higher downpayments. Owners of particularly large tracts will usually prefer to sell their entire holding to a single developer at some discount rather than partition the tract and be forced to gamble on the unsold remainder (Grebler, 1973b, pp. 61-62). Finally, in the case of a new community development at some distance from the built-up area, a single large developer may be the only potential buyer with sufficient resources to execute the project. In this case the developer can initially create a buyers' market for himself.

Once a development firm has adopted practices that enable the firm to grow substantially, the firm may expand to the point where diseconomies of scale are experienced. Scale diseconomies that do exist at both the project and the firm level appear to be entirely managerial in nature. Both housing construction and land development are management-intensive activities relying a great deal on personal contacts, supervision and non-routine decision making. Expansion of operations requires lengthening the span of management, thereby requiring more consultation and resulting in less efficient use of managers' time. Such management diseconomies are usually assumed to be manifested as higher per unit overhead costs.

While higher overhead costs for larger development firms can in fact be documented, such evidence cannot easily be interpreted. Services that have been internalized by large firms appear as fixed costs in their accounts, but as variable costs in the accounts of small firms. It is also necessary to examine the returns to overhead obtained (Grebler, 1973b, p. 66). Large firms may experience relatively high returns to overhead due to more efficient scheduling of service provision, cost and quality control systems, improved accounting practices and efficient material delivery techniques. The successful development of a tier of second line managers can greatly extend the volume of operations over which managerial diseconomies will not be acutely felt (Eichler, 1967, p. 146).

Corporate Integration

The process of development industry concentration has been basically one of corporate integration. Vertical or internal integration involves the creation or acquisition of 'in house' departments or subsidiaries that perform production activities which were previously contracted out. These include such functions as construction, planning, engineering, legal

services and property management. Vertical integration results in the provision of these services to the developer at cost and also allows for some accounting manipulations for tax shelter purposes. Just as important, vertical integration also allows the developer to control the timing of these production stages, thereby avoiding the risk of costly delays arising from the unavailability of subcontractors (Barker, 1973, p. 4). Interestingly, vertical integration rarely extends as far as the provision of building supplies. Most building supply ventures that have been attempted by developers, including Continuous Colour Coat and Modular Precast Concrete have been sold, or terminated. Presumably, large developers gain sufficiently advantageous terms from suppliers that assuming all of the risks of a building supply operation is unnecessary. While vertical integration is now practiced to some degree by all developers, its extent varies widely. Cadillac Fairview Corporation maintains two construction branches, one for its own use and one that operates as a contractor for other developers. Markborough Properties, on the other hand, uses subcontractors quite extensively.

Vertical integration does, however, carry with it the risk of losses due to idle capacity in times of market slowdown. In addition to geographical diversification, horizontal integration may also be undertaken to protect against this. Horizontal integration is accomplished by expanding into other development and construction fields such as apartments, condominimums, office towers, industrial malls, hotels, and shopping centres so that production capacity may be diverted from lagging sectors

to more active ones (Building Development, August 1972, p. 35). While most development companies in the early 1960's were specialized by product, the large firms operating today describe themselves as 'fully integrated'. Table 1 indicates the present combination of geographical and sector diversity.

A large part of corporate growth has occurred through acquisitions of smaller companies although horizontal integration is often initiated by the parent company before acquiring firms in that field. A different expansion strategy involves the use of joint ventures or, ultimately, mergers. Joint ventures involve shared ownership and often shared management of a specific project among two or more firms. These projects are undertaken jointly in order to lower production and financing costs, improve access to capital for the project and increase marketability (Spurr, 1976, p. 217). To some extent joint ventures spread the risk involved in a large project and divert competition. The Toronto area has spawned a number of such ventures including St. James Town and Crescent Town (Meridian and Belmont Corporations), Quebec-Gothic (Cadillac and Greenwin) and sections of Bramalea (Consolidated, Bramalea, Cadillac, Del Zotto, Victoria Woods).

The case of Erin Mills is illustrative. Erin Mills, a new community development in Mississauga was initiated by Canadian Equity and Development Corporation, a joint venture of Cadillac Development and the Fairview Corporation. Construction began in 1971. Cadillac's association with Fairview began in 1957 when Cadillac built a shopping centre for Fairview. Cemp Investments, the Bronfman family company which controlled Fairview,

owned a small interest in Cadillac in the 1960's. Erin Mills was only the largest of many joint ventures shared by the two companies up until their merger in 1974 (Financial Post, October 26, 1974). Similarly, Great West Corporation shared directorship links with the giant Trizec Corporation before Trizec acquired control of Great West in 1971. Mergers or acquisitions may simply be the last step in a lengthy process of corporate integration (Barker, 1973, p. 44).

The major benefits from mergers themselves are probably financial in origin. The merged company experiences a greater ease of integrating financial activities and arranging advantageous tax shelter positions. Merging can also lower the cost of capital by enabling the merged corporation to sell larger blocks of securities (Johnson, 1974, p. 527). A larger operating unit can achieve more respectability in the financial community and the larger share float (if the company is public) is preferred by major investment institutions (The Globe and Mail, May 24, 1973).

Changes in Development Financing

The sequence of company mergers in the early 1970's, which occurred largely for financial reasons, indicated the importance of financial considerations in encouraging corporate growth in the industry. Until the early 1960's almost all land developers were heavily dependent on construction loans for financing. These loans are provided separately for each individual project. They are expensive, being short-term, high risk and costly to administer as they require individual negotiation and frequent inspections of work in progress. Rates are typically three to five per

cent higher than the banks' prime lending rate and these loans become difficult to acquire during times of credit stringency. Large development corporations are, however, able to avail themselves of financing methods available to corporations generally. Such devices are only available to firms that are well established and can support large transactions. In Canada, most construction is financed by major developers, their funds acquired on the strength of their past performance and overall financial soundness rather than on an individual project basis. Such borrowing can be done at rates of one to two per cent above prime (Grebler, 1973b, p. 37; Lint, 1973, p. 6).

A variety of financing devices are available to the large firm. Debentures may be issued, sometimes using sinking fund approaches or with warrants attached. Unsecured commercial bank credit may be obtained, or occasionally a consortium may be formed with major industrial corporations such as the one involving S.B. McLaughlin Corporation, Imperial Oil and Canadian General Electric. If the development company is owned by a large, diversified corporation, funds may be provided by the parent or on the strength of the parent's borrowing power. Also, large, well-established companies are able to obtain favourable rates by maintaining a continuing association with one or more lenders. As well, financing may be arranged well in advance of construction thereby shielding the developer somewhat from mortgage rate fluctuations (Building Development, June 1972, p. 17; Financial Post, May 26, 1973).

The 1960's saw a number of development firms become public corporations. Going public can provide substantial expansion capital for growing, but equity-poor, development firms. It also facilitates mergers and acquisitions.

> By going public, the formerly private company... is able to add two vital weapons to its financial arsenal; cash derived from the initial offering of its treasury stock, and unissued treasury shares of a company whose stock was publicly issued.
> (McQuillan, 1971, p. 4)

The cost of raising money by issuing common stock can be reduced by buying back some of the shares when values are depressed, as occurred recently in the case of Sifton Properties, and earlier, Trizec Corporation and Daon Development (Maclean's Magazine, July 11, 1977). A new public real estate company can expect to have a price-earnings ratio of ten to one or somewhat higher although fortuitous timing has resulted in higher ratios. Cadillac Development was underwritten at thirty-times earnings, adjusted for deferred taxes, when the stock was first offered in 1968 (Building Development, November 1971; MacQuillan, 1971, p. 57).

CHARACTERISTICS OF LARGE DEVELOPMENT FIRMS

Structure and Strategy

While concentration in the development industry has proceeded to the point where some useful generalizations can be made about development firms, it would be incorrect to assume that the industry has become monolithic. The observation that Simon Chamberlain made in 1972 remains applicable:

> Development companies differ widely from one another, not just in size or scope of operations but in their norms or constraints, their decision making procedures, and their whole 'corporate personality'.
> (Chamberlain, 1972, p. 45)

Most Toronto area development companies of any size are Canadian public corporations or the wholly-owned subsidiaries of foreign public real estate concerns. Some large, private companies are active, but it seems that corporate growth necessitates stock issues eventually. With one minor exception (Campeau Corporation, which has few Toronto area holdings), these development companies are controlled by a small group of individuals or by one or two investment firms. Usually more than 50% of the shares rest with a principal group, invariably at least 40% do (see Table 3). It is a testimony to the extent that large development corporations can overcome the uncertainties of the land market that the stocks of the largest of them are rated as of average risk, or in the case of Cadillac Fairview Corporation, as a conservative investment (Canadian Business Services, 1976).

Becoming a public company has ramifications beyond providing for expansion, acquisitions and mergers. It becomes necessary to expose the corporation to the scrutinity of the shareholders which may represent an unwelcome intrusion and can reduce flexibility. It becomes even more important for public corporations to maintain relatively stable earnings over each time period in order to protect the value of their stock (Gilbert, 1976, p. 22). While there may be some pressure exerted to produce short term profits in order to make earnings figures initially more attractive for investors, the investment of the principal group is

Table 3: Ownership of Selected Development Corporations, 1974

Corporation	Status	Principal Group if Known	Share % Controlled
Abbey Glen	public	Capital and Counties (U.K.)	72
Alliance	public	C.A. Allard and Z. Feldman	69
Bramalea	public	Schiff-Field Syndicate and Eagle Star Ins. (U.K.)	50
Cadillac Fairview	public	Bronfman (Cemp), Daniels, Diamond, Berman	57
Caledon Mt. Estates	public	McLaughlin Corp.	96*
Campeau	public	R. Campeau and J. Paradis	21
Consolidated	public	Bovis Corp.[1], L. Shankman, S. Rumm	43
Costain	public	Richard Costain Holdings (U.K.)	50
Hambro	public	Hambros (U.K.)	48*
Kaufman and Broad	subsidiary	Kaufman and Broad (U.S.)	100
McLaughlin	public	S. McLaughlin and Bronfman (Mico)	40
Marathon	subsidiary	Canadian Pacific	100
Monarch	public	Taylor Woodrow (U.K.), Standard Life (U.K.)	75
Pinetree	private	Tannenbaum family	100
Revenue	public	M. Goldhar, A. Rubin, H. Rubin	59
Runneymede	private		
Trans-Nation	private		
Wimpey	subsidiary	George Wimpey (U.K.)	100

foreign ownership noted where known *1976

sources: Financial Post, October 26, 1974.
Real Estate Development Annual, 1974
Financial Post Corporation Service.
Spurr, 1976, p. 221.

*1976

[1]Bovis Corp. shares owned 61% by P and O Steam Navigation (U.K.)

best protected by concentrating on producing stable, long term gains (MacQuillan, 1971, p. 11; Spurr, 1976, p. 25).

In theory, a development company that comprised the real estate arm of a large, diversified corporation would be better able to deal with development delays and market fluctuations than an independent company, as the subsidiary could be maintained on the larger cash flow of its parent corporation. This would enable the developer to acquire land at an early stage and wait for the most fortuitous combination of land value appreciation and construction climate (Building Development, November 1971, p. 33). Only one of the Toronto area developers is in such a position, however - Canadian Pacific's wholly-owned subsidiary Marathon Realty - and this is largely as a result of historical accident. The two other wholly-owned subsidiaries active in the area are both owned by foreign land development companies which can provide additional diversity by way of a broad geographical base and greater cash flow, but not to the extent that Levitt and Sons could rely on after being acquired by ITT. There has been a heavy participation in Toronto real estate by British insurance companies but this has been solely in a controlling interest capacity and many of these firms have recently sought to extricate themselves (e.g. Capital and Counties, and Eagle Star Insurance).

This state of affairs contrasts with the American experience of the late 1960's and early 1970's which saw numerous acquisitions of land development firms by diversified conglomerates. Perhaps the main reason for the absence of this occurrence in Canada and its rapid decline in the United States is the highly entrepreneurial nature of land development. While maturing as an industry, successful land development remains highly dependent on the skills of a relatively few individuals who, for the

most part, prefer not to be bound by higher-level management in a conglomerate and prefer to maintain equity positions in the companies they manage rather than merely draw a salary (Business Week, August 29, 1970, p. 77).

One of the prime considerations of public real estate companies is growth. Growth becomes an end in itself beyond any particular corporate strategy for two reasons. Firstly, as the company becomes integrated and internalizes functions, a minimum level of activity must be maintained at all times. If the company is retaining some or most of its income producing properties, asset growth will result. Secondly, companies that grow constantly can continue to defer most of their income taxes and thereby extract the equivalent of an interest free loan from the government. Maintenance of a favourable capital cost allowance (CCA) requires this continuous growth, and failure to expand may result in a sudden increase in tax payable. These tax deferrals are substantial and are used extensively by all development companies. A 1973 survey of public real estate companies revealed that deferred taxes were, on average, four times greater than taxes paid that year (Peat, Marwick, 1975, p. III-25).

As development corporations have increased in size and financial capability they have acquired the ability to hold large amounts of land for considerable periods of time. As detailed earlier, long term land banking has become necessary in order to ensure continuity of operations (McLaughlin, 1970, p. 21). As land values in the Toronto area continue to spiral upwards, land banking companies are able to significantly in-

crease their operating leverage by acquiring land well in advance of development at a relatively low initial cost (Financial Post, April 14, 1973). Construction lead times have been increasing throughout the industry well beyond levels attributable solely to individual subdivision approval delays, even among corporations for whom minimizing land-holding costs is given a high priority. Costain Limited was forced to abandon its policy of purchasing only acreages having immediate development potential in 1969. By 1972 it reported that it had become necessary to acquire land several years before its development (Costain, 1969, 1972). While some cash-poor or overexpanded companies have recently retreated somewhat from extensive long term land holdings, the overall trend to substantial land banking over the past two decades has been unmistakeable.

Some major developers initially based their operations on long term land banking particularly those, such as Canadian Equities and Development, which were involved in new community developments. Bramalea Limited began assembling its far-from-exhausted supply of land near Brampton, Ontario in 1956 (over 3,000 acres are held presently). At present, Abbey Glen Corporation anticipates a ten-to-twenty year lead time for its project near Oakville (Financial Post Corporation Service). Campeau Corporation was one of the early exponents of this strategy, assembling more than twenty years' supply of raw land in the Ottawa area before expanding to the Toronto area (Canadian Real Estate Annual, 1970). These land banking companies are able to mitigate the cyclical aspects of the housing

market, particularly mortgage rate fluctuations, through careful phasing of the development of their land (Financial Post, April 14, 1973).

Peter Spurr reported that most new land coming into production in the Toronto area had been held five to ten years and bore accumulated costs of fifty to sixty per cent of market value. Of these costs, carrying charges including interest represented between three and twelve per cent and taxes comprised one to eight per cent. Developers 'roll over' their inventories, developing land nearer the built-up area and using the capital gain realized to purchase less costly land further out. Thus, while total yearly land conversion in the area has remained fairly constant in recent years, land banks continue to increase (Spurr, 1976, pp. 212, 240, 396). It is interesting to note that Chamberlain, based on interviews conducted in 1970, remarked that few large developers engaged in long term land banking (Chamberlain, 1972, p. 14).

Most public development companies in the Toronto area have adopted a second strategy in order to assure themselves continuity of operations and profits. This is the retention of income-producing properties such as apartments, commercial buildings, shopping centers and hotels. This provides a steady base of earnings and cash flow, a position essential for the maintenance of large land inventories. As well, retention of income properties has become a prerequisite for obtaining a favourable assessment from the financial community (Taylor, 1975, p. 98; Anderson, 1972, p. 96). The relationship between this policy and land banking strategies

is illustrated by the fact that retention of income properties was initiated by large land assembly companies such as Markborough and Bramalea - as early as 1965, while short term land holding companies did not embark on revenue retention programs until much later, Costain being the last to begin in 1974. Presently most public land developers are attempting to increase or consolidate their income property portfolios. Some land development companies began as specialists in revenue properties, expanding into residential development at a later date. Alliance Corp. diversified into residential construction from a base in industrial malls and property management. Fairview Corp. began residential sales in 1972 more than fifteen years in income properties only (Alliance Corp., 1970; Fairview Corp., 1973). Table 4 illustrates the recent convergence of the asset mix of public development corporations.[2]

An extension of this trend in future may have been heralded by the Cadillac Fairview Corporation which is pursuing a policy somewhat the reverse of the one now dominating the industry. This company uses house construction and land sales to provide cash flow bolstering for the production and retention of long term income properties rather than vice versa. This requires an even more long term involvement in asset retention and growth, based on the tenet that in the long run, "the real value in real estate lies in holding it long enough for appreciation", (Globe and Mail, May 5, 1972).

Table 4: Revenue Producing Properties as a Percentage of Total Assets for Selected Companies, 1968-1975.*

Company	1968	1969	1970	1971	1972	1973	1974	1975
Abbey Glen[1]	na	na	(29.0)	(33.8)	(36.1)	(37.8)	31.9	41.8
Alliance	na	46.5	32.9	48.0	38.4	27.1	23.7	27.8
Bramalea	7.5	11.2	10.2	9.4	30.8	36.1	35.9	53.2
Cadillac Development	59.1	62.9	61.7	60.0	57.1	62.4	-	-
Cadillac Fairview[2]	(57.5)	(59.7)	(58.2)	(54.6)	(54.0)	(57.1)	60.1	56.5
Canadian Equity	49.1	39.0	39.0	28.3	39.7	33.5	-	-
Consolidated	47.3	24.4	24.4	19.7	23.6	23.1	26.5	35.1
Costain	0.0	0.0	0.0	0.0	2.2	19.8	20.2	17.4
Great Northern Capital	0.0	12.3	12.3	12.5	22.5	36.0	-	-
McLaughlin	1.3	4.2	4.2	13.0	10.6	26.0	34.3	35.0
Markborough	47.5	50.4	50.4	39.3	38.7	35.9	30.4	29.6
Revenue	na	na	na	37.4	37.1	40.0	32.1	34.2
Western Realty	na	na	44.1	48.8	48.7	39.4	-	-

*Figures are from annual report nearest Dec. 31 of stated year. Value of revenue properties is usually given excluding those under construction and less accumulated depreciation however accounting procedures may vary significantly between firms and/or be subject to non-retroactive revision within firms. As assets are listed at book, not appraised value the results may be influenced by the relative timing of the acquisitions of the two types of assets. Revenue properties held in subsidiaries or joint ventures not separately accounted for are not included in the revenue properties calculation.

[1] figures in brackets are combined figures for GNC and Western Realty.

[2] figures in brackets are combined figures for Cadillac Development and Canadian Equity; Fairview Corp. omitted due to lack of data.

na = not available

Source: Annual Reports.

Changes at the Industry Level

The emergence of a concentrated land development industry has been an evolutionary process for which there are few benchmark events. Fully integrated firms, companies capable of undertaking a project from the acquisition of the raw land to the project management and marketing stages, began to emerge in the mid 1950's, often as amalgamations of up to twenty-nine related private companies (Cadillac, 1968). It was about this time that three important events occurred that spurred the concentration of the industry: 1) regional development controls were first instituted; 2) economies of scale in house production became firmly established; and 3) Don Mills, the first community-size development in the Toronto area, was successfully launched.

The early 1960's saw the trend among real estate firms to become public companies begin to gain momentum. This process accelerated later on so that, while there were fifteen public real estate companies in all of Canada in 1967, there were forty such companies by 1976 (Financial Post 300, 1976, p. 46). Sophisticated, well financed public corporations, as have been described here, were established as industry leaders by the mid-to-late 1960's. This began a period of substantial asset growth on the part of these companies which has extended into the 1970's (Table 5).

These trends are reflected in two data sets which note the production of housing by the size of builders' operations. These are not exact measures of development industry concentration; however, many if not all of the large builders in the surveys are developers. Data for the Toronto region provided by Central Mortgage and Housing Corporation pertains to approximately fifteen per cent of all housing construction in the region (Table 6, Figure 1). Data for all of Canada were obtained from a survey

Table 5: Asset Growth of Selected Companies, 1969-1975 (Book Value).

		1969	1972	1975
Abbey Glen	Great Northern	48,790,000	114,098,000	387,586,000
	Western	54,041,000	122,325,000	-
Alliance		10,584,000	33,259,000	97,706,000
Bramalea		66,057,000	122,488,000	297,143,000
Cadillac Fairview	Cadillac	197,813,000	332,064,000	1,045,157,000
	Canadian Equity	38,348,000	72,834,000	-
	Fairview	na	na	-
Consolidated		19,623,000	41,429,000	100,583,000
Costain		15,915,000	34,121,000	92,617,000
McLaughlin		51,500,000	107,610,000	256,402,000
Markborough		58,864,000	80,837,000	142,105,000
Revenue		na	85,296,000	104,476,000

Sources: Annual Reports

n.a. = not available

Table 6: Size of NHA Operations of Builders Obtaining NHA Loans for New Housing: Toronto Area, 1961-1973.

	Builders' Activity by Number of Dwelling Units									
	1-25		26-50		51-100		100+		Total	
Year	% of all builders	% of all dwelling units	% builders	% dwellings	% builders	% dwellings	% builders	% dwellings	# of builders	# of dwellings
1961	84.1	44.0	10.5	21.7	3.8	17.3	1.7	17.0	239	3851
1962	76.4	29.2	14.5	20.1	5.5	16.5	3.6	34.3	165	4103
1963	69.0	14.4	12.4	9.9	7.6	13.8	11.0	61.8	145	6526
1964	57.8	10.5	18.6	14.8	12.4	19.6	11.2	55.1	161	7360
1965	66.4	17.8	16.0	15.7	8.0	17.3	9.6	49.3	125	3961
1966	63.2	18.4	20.8	20.8	10.4	23.2	5.7	37.6	106	3432
1967	69.3	15.3	13.3	13.7	5.3	10.5	12.0	60.6	75	3212
1968	44.4	8.4	20.0	11.2	24.4	26.5	11.1	54.0	45	2986
1969	25.0	3.0	35.0	15.2	10.0	7.4	30.0	74.4	20	1821
1970	48.8	5.2	16.3	4.8	14.0	11.4	20.9	78.6	86	7570
1971	49.1	8.3	17.2	8.7	10.3	11.5	23.3	71.5	116	7898
1972	43.3	8.5	21.1	9.9	12.2	10.7	23.3	71.0	90	7774
1973	19.0	2.7	10.3	3.1	13.8	6.9	56.9	87.2	58	7614

Source: Canadian Housing Statistics, C.M.H.C., Ottawa.

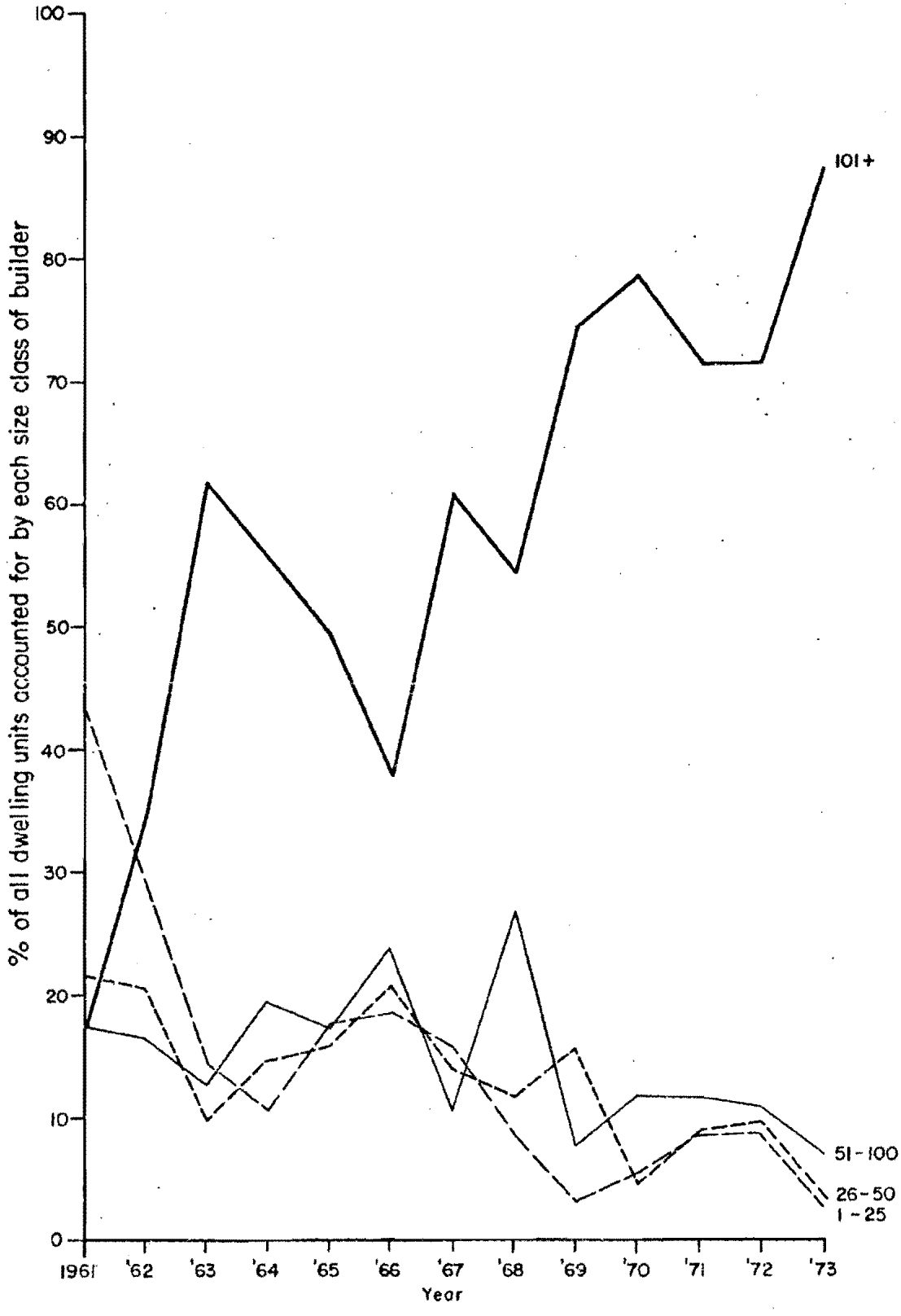


Figure 1: Percentage of New Units Constructed Using Direct NHA Loans to Builders for Each Size Class of Builder (number of NHA units per year): Toronto Area, 1961-1973.

conducted by Melvin Charney in 1970 (Figure 2). Charney further documented the trend for large builders to develop land as well (or for large developers to build units) while small builders dropped out of land development (Figure 3).

Hard data concerning entry and exit to the land development industry are lacking but it is certain that barriers to entry into the industry have grown significantly with the increasing size, scope and sophistication of the individual firms involved. Whereas at one time a small investor could finance a small subdivision through the extensive use of leverage and a minimal amount of short term financing, such projects have now become relatively more expensive and difficult both to execute and to market.[3] Acquiring suitably large land parcels, waiting until development approval has been obtained and bearing the risks involved in a market that is volatile in the short run, are all tasks that are increasingly beyond the financial capabilities of small companies. Further, land acquisition, development planning, government negotiation and project marketing have become much more sophisticated, requiring heavy investments of time and expertise. As large developers continue to assemble land banks in areas likely to be granted development designations in the future, less acreage that is developable in the short run (and therefore feasible for small development companies) will be available. The Financial Post noted that:

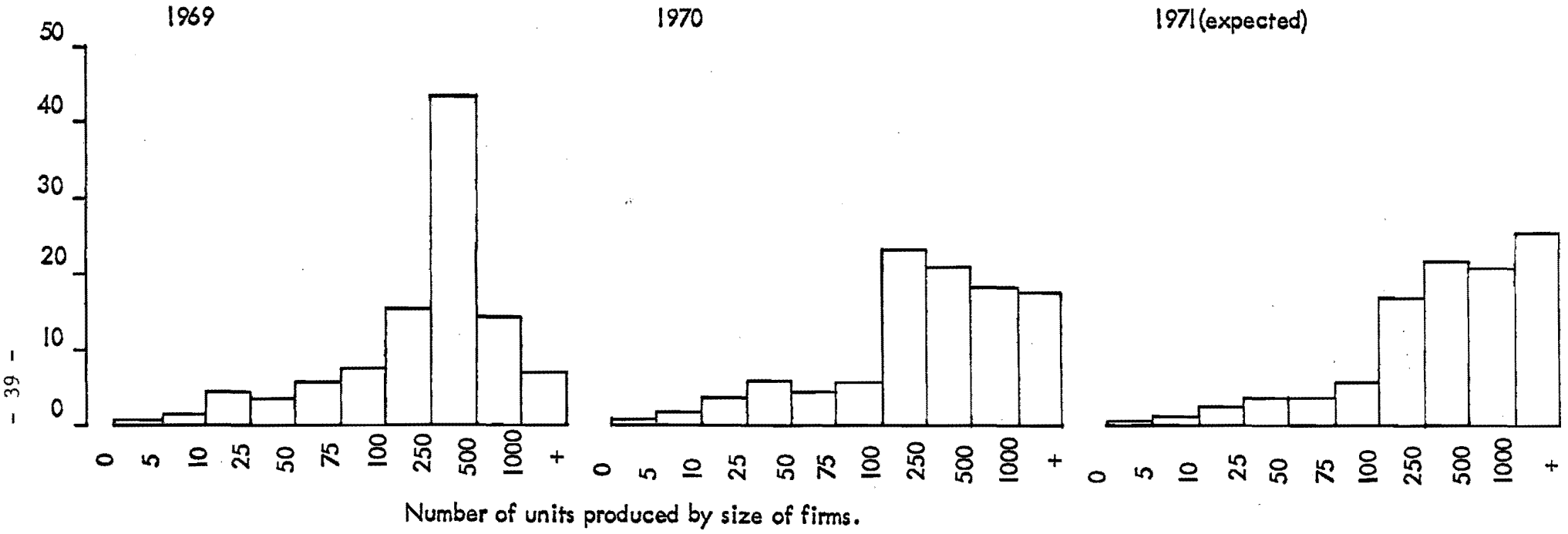
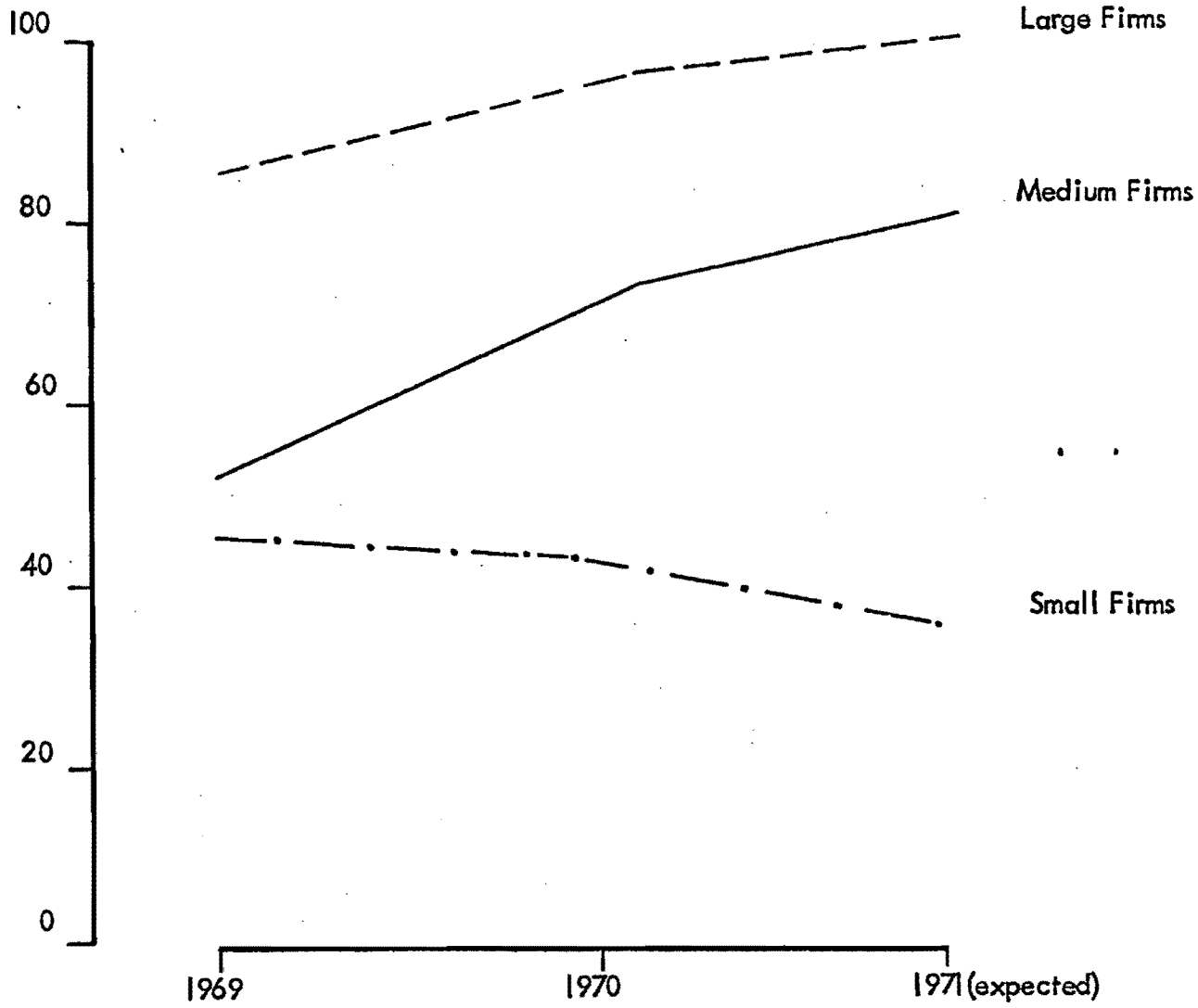


Figure 2: Distribution of Builders and Unit Production.

Source: Charney, 1971, p. 126.

Figure 3: Percentage of Builders Who Also Develop Land, Canada.



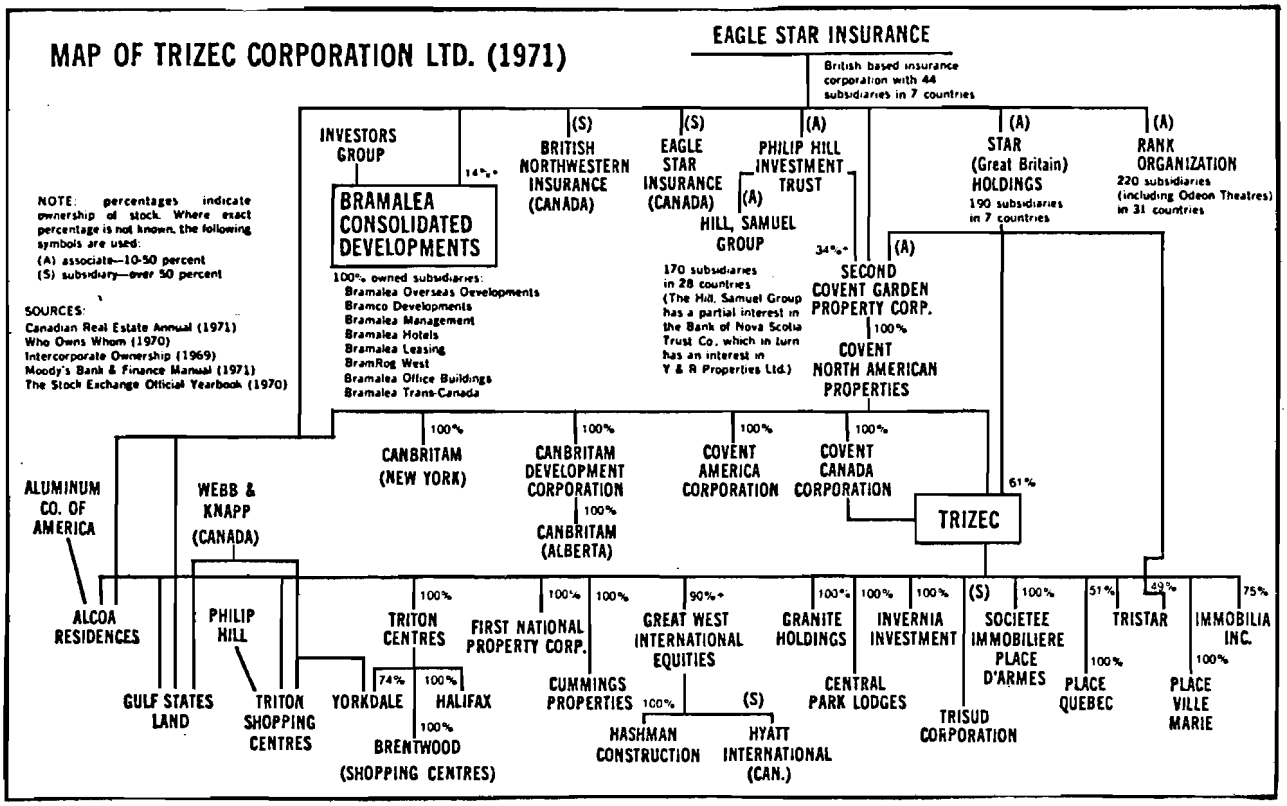
Source: Charney, 1971, p. 127.

> Clearly the land game is a tough game. Even in other centers [than Toronto] across the country where congestion is less and costs spiral less relentlessly upward, probably more bankruptcies are noted - among small developers at least - than in most business. (Financial Post, August 26, 1972; my emphasis).

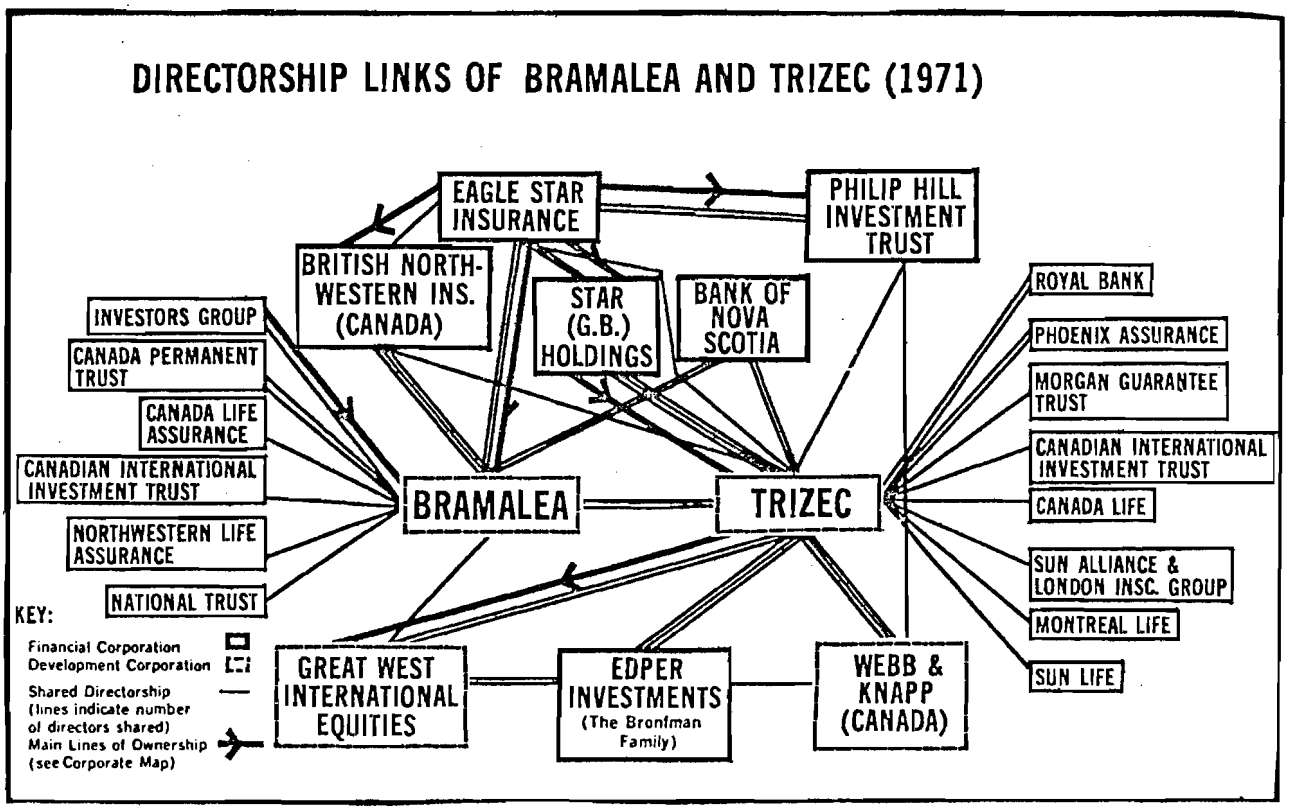
As long as industrial corporations in other sectors are unwilling or unable to diversify into land development, the only likely sources of firm entering the Toronto land sector with any strength will be firms which began modestly in more hospitable markets, or Toronto area commercial property developers who have decided to diversify.

A less precise aspect of development industry concentration is the gray area of corporate integration through informal partnerships, joint ventures and affiliates, continuing associations with firms in related fields, and shared directorships. The most accessible of these, and the means by which the others are often accomplished, are shared directorships. These directorships most often link development companies to each other and to financial institutions (Figure 4 and Figure 5). Directorship links with lenders encourage and/or represent continuing associations or working relationships which enable large, established developers to acquire favourable financing terms, a powerful advantage over less established competitors. Links with other area developers facilitate joint ventures, but in fact, the extent to which they foster cooperation (or collusion) between developers is unknown and particularly difficult to speculate about.[4] Similar difficulties of interpretation are raised by reports such as the one issued by Markborough Properties in 1969:

Figure 4: Development Industry Linkages

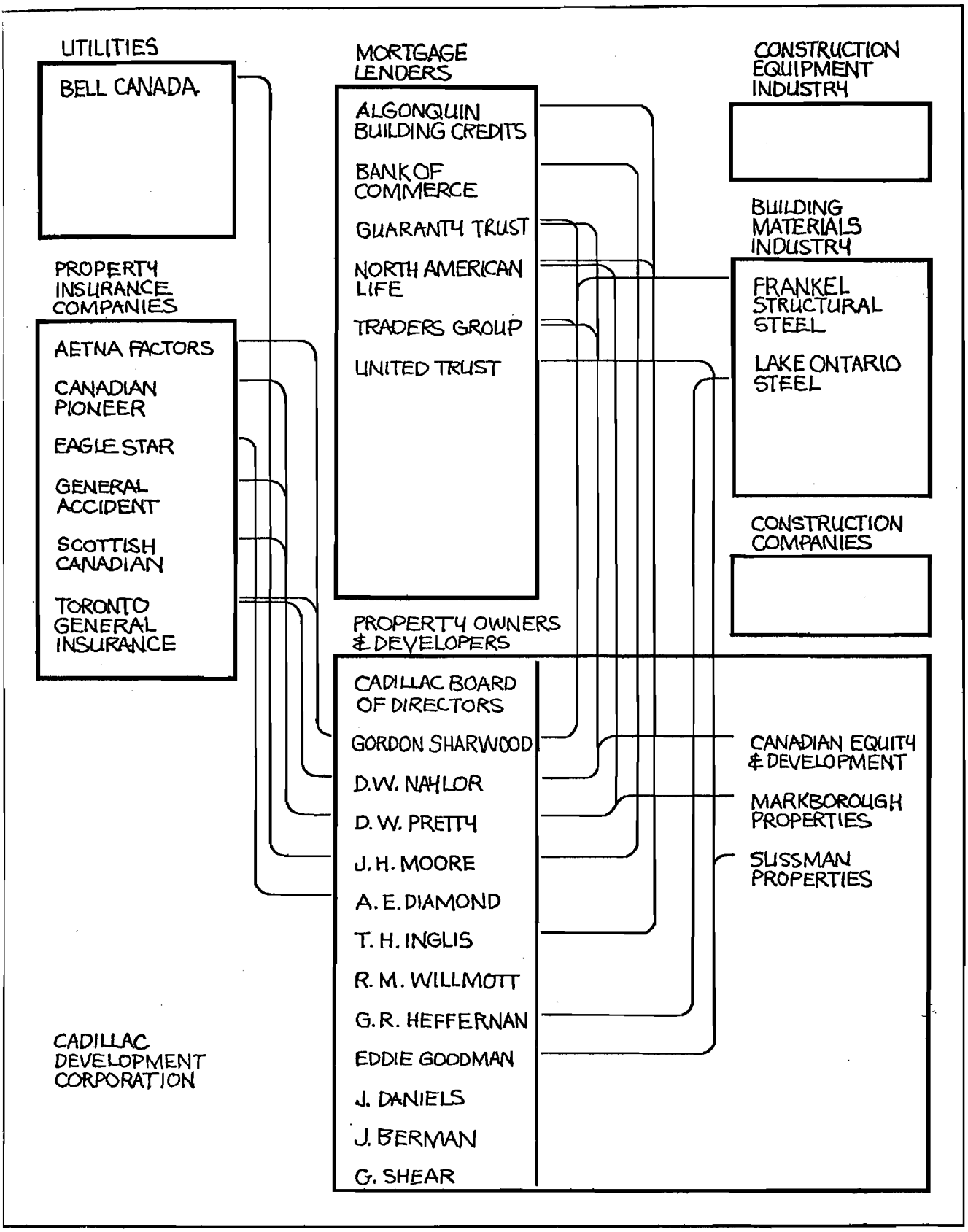


Source: Barker, 1973, p. 43.



Source: Barker, 1973, p. 45.

Figure 5: Development Industry Linkages



Source: Lorimer, 1972, p. 59.

> Markborough is also in frequent contact with the other major developer in the West Credit region with whom we are co-operating to ensure that the ultimate result will be a well co-ordinated group of communities.
> (Markborough, 1969)

There is a body of opinion in the United States that suggests that large developers are able to increase their share of the housing market during cyclical downturns in housing starts. In 1973 for example, housing starts in the United States fell thirteen per cent while the share of the market garnered by large builders rose nine per cent (House and Home, March 1974, p. 90). While the output of large builders may drop somewhat during market slowdowns it is the small builder who is most affected by cyclical declines. This occurs for two reasons: during the more competitive downturn periods large developers are able to utilize the various economies of scale available to them to make their inventories more saleable; and secondly, large developers are better able to anticipate and weather these fluctuations financially (Herzog, 1963, p. 135). If, as seems likely, large developers in the Toronto area are similarly able to improve their relative position during market slowdowns, this represents a significant change in the growth dynamic of the industry. Where once the cyclical nature of the housing market limited the growth of large corporations because of the high costs of maintaining idle capacity, this barrier to growth has been essentially overcome; if not in most cases reversed.

Corporate secrecy, joint ventures and the uncertain long run spatial path of development combine to make estimates of concentration in land ownership difficult.

The best available source is the recent study conducted by Markusen and Scheffman for the Ontario Economic Council. Data were collected concerning the ownership of the land deemed to be most likely to be developed in the Toronto area over the next ten years. Companies sharing one or more principal officers or directors were considered to be linked (this was termed level I ownership). More tenuous links, through one or more intermediate companies, were also examined (level III ownership), but this did not significantly increase the observed level of concentration. Their results are summarized in Tables 7 and 8.

Two qualifications should be noted. In each of the six municipalities studied, the level of concentration was markedly higher than that found for the entire region. The four firm land ownership concentration ratio for the entire region was 31% while in Brampton, for example, it was 60%. This may present large developers with a significant bargaining advantage with local land owners and builders. Second, some of the land owners in the sample may not be considering, or even be capable of, developing their land within the next ten years. Rather, they may be planning to sell their holdings to a large developer at an appropriate time. Thus, while Markusen and Scheffman found 49% of the best-situated suburban acreage in 1977 to be held by 10 firms, Muller found that the 10 largest subdividers in 1971-1973 accounted for 59% of dwelling unit approvals[5] (Markusen, 1977, pp. 66, 81-87).

Table 7

Level I Effective Ownership - Restricted Sample
(net net acres 34,272.5)

Rank	Composite company	Acres	Cumulative acres	% of net net acres	Similar % for nominal ownership
1	Cadillac	3812.2	Top 4		
2	Bramalea	2602.2			
3	Markborough	2328.0			
4	S.B. McLaughlin	1887.7	10,630.1	31.0	24.3
5	Cedarland	1863.4	Top 6		
6	Pinetree	1265.4	13,758.9	40.1	29.5
7	Glen Ash	953.8	Top 10		
8	Consolidated	863.1			
9	Acumen	694.8			
10	Goodman, M.	568.1	16,838.7	49.1	37.4
11	Monarch	502.8			
12	Sander	456.4	Top 15		
13	Langport	401.6			
14	Blechman, et al.	375.2			
15	Rindor	363.1	18,937.8	55.3	43.9
16	Forest Glen	352.0			
17	Captain	338.7	Top 20		
18	Markham 18-20	284.2			
19	J.D.S.	268.4			
20	Daniels et al.	262.4	20,443.5	59.6	49.1
21	Coniferous	243.2			
22	Village Sec.	242.1			
23	Costain	236.4			
24	Batsen	219.0			
25	Revenue Prop.	214.4	21,598.6	63.0	53.3

Table 8

Level III Effective Ownership - Restricted Sample
(net net acres 34,272.5)

Rank	Composite company	Acres	Cumulative acres	% of net net acres	Similar % for nominal ownership
1	Cedarland-Pinetree	4092.6	Top 4		
2	Cadillac	3812.2			
3	Bramalea	2602.2			
4	Markborough	2328.0	12,835.0	37.4	24.3
5	S.B. McLaughlin	1887.0	Top 6		
6	Glen Ash	953.8	15,675.0	45.7	29.5
7	Consolidated	863.1			
8	Goodman, M.	568.1	Top 10		
9	Monarch	502.8			
10	Sander	456.4	18,066.2	52.7	37.4

Source: Markusen, 1977, pp. 81, 88.

IMPLICATIONS OF STRUCTURAL CHANGE IN THE INDUSTRY

Costs to the Developer and Consumer

No attempt to unravel all the components of housing costs in the Toronto area will be made here, however, some areas where the structure of the development industry may have some influence will be discussed. It should be noted that, in one sense, concentration in the industry has been a response to rising costs as large, well-financed organizations are needed to bear the high costs of holding land, providing services required by municipal regulation and providing facilities called for by marketing considerations.

There is no doubt that many scale economies available to large firms have resulted in decreased costs of production in the concentrated land development industry, ceteris paribus. A portion of these savings may have been garnered by sectors of the building supply industry or by land dealers in the form of higher prices for their inputs. However, most of these sectors are no more concentrated than the development industry and cannot be expected to have drawn off much of these savings. The extent to which cost reductions arising from economies of scale have been passed on to consumers depends on the degree of competition affecting the industry.

It is these economies of scale which help form barriers to entry to the land development industry and which, by reducing competition or the threat of competition, allow producers to retain some of these

savings. Where small competitors do exist, they cannot force the larger developers to cut their prices so as to pass on all of their scale-induced savings to consumers. To do so, the small developer would have to sell below his (relatively higher) cost.

As the industry becomes progressively more concentrated, it will become increasingly difficult to enter the industry at a competitive scale because of the reduced available market share. The difficulties faced by a potential entrant in raising the necessary capital to begin operations at a viable scale form another barrier to entry. This is particularly felt in the land development industry, as large going con-concerns in other industries which could most easily surmount this difficulty (Needham, 1971, p. 299) are not generally disposed to entering land development.

Any decrease in potential competition within the land development industry is tempered by competition from within and outside the housing sector. Other sectors in competition with new housing for sale include not only resale housing and rental accommodation but also other goods and services such as automobiles, home appliances, entertainment and vacations. Many of the advertising campaigns of large developers contain a response to this out-of-sector competition for the consumer dollar.

The data presented by Markusen and Scheffman allow us to make some informed judgements about the existence of market power in the land development sector. Leaving aside the possibility of competition from presently occupied and rented housing, interpretation of the evidence

they present depends in part on the degree to which housing in one municipality is considered by consumers to be substitutable for housing in another.[6] This substituability is probably quite high (although it has not been directly studied), the spatially restricted field of housing search noted among consumers (Canadian Builder, September 1976) may only reflect the homogeneity of housing opportunities in the area. Accordingly, Markusen and Scheffman stated:

> It cannot be concluded on the basis of the evidence on concentration that we have presented that exercised market [power] (sic) is an important characteristic of the Toronto land market. We base this opinion on the data and on our belief that the cross-run elasticity of demand for housing in adjacent municipalities is probably quite large.
>
> (Markusen, 1977, p. 93).

It has been suggested that there has been an increase in the ability of large corporations, and therefore the development industry as a whole, to free themselves from some of the whims of the market. Long term financing and land acquisition programs, careful market analyses and corporate diversification, have afforded large development corporations increased control over the timing of their development operations with the exception of the growing delays imposed by government agencies. Overbuilding and resultant buyers' markets should become less likely or less extensive with industry concentration,[7] as:

> The larger builders with a little more sophisticated marketing approach are the ones that are able to avoid these problems, better than the smaller ones who frequently have a tendency to build whenever they can get mortgage money and have lots available without possibly paying as much attention to the marketing end as would be good for them.
>
> (Canadian Builder, December 1976)

Large developers with relatively low land holding costs can take advantage of their diversification, can afford to 'wait out' smaller competitors in order to take advantage of demand fluctuations and the reduced productive capacity of their competition.

The shift to long term land holding strategies is, in part, a reflection of a rising cost situation to the extent that these holdings are speculative in nature. Such a strategy is perceived to be viable when it is believed that the ultimate value of the land upon conversion is rising more quickly than the cost of the money borrowed in order to purchase it. This is the basic principle of leveraged investment, and leverage remains one of the developer's most important and extensively used profit making tools. The difference between the value of the land and the cost of the borrowed money can be said to be partly a return to entrepreneurship and partly a risk premium. A certain premium must be earned by any asset which is long term and uncertain, and whose market value cannot easily be realized before its maturity (conversion), in order to induce investment in such an asset as opposed to a short term, more certain commitment. As land holdings become increasingly long term in nature this premium must increase. As was noted in the Real Estate Development Annual, "in the long run, the costs of maintaining excessive inventories must be recovered," (Taylor, 1975, p. 98).

The returns to land development include not only this risk premium, but also Richardian rents, returns to information and normal returns to entrepreneurial services. Further, there is some evidence that land development companies are content to let speculators bear most of the risks, and to earn most of the risk premium (Markusen, 1977, p. 119). Although the effect of long term land banking on development costs is difficult to apportion or to measure, consistent and increasing investment in long term, uncertain assets indicates the existence of a relatively increasing potential for high returns.

Spatial Path of Development

It is apparent that concentration in the land development sector is both a response to, and a cause of the imposition of, a more orderly spatial pattern of urban development. Small developers are forced to acquire land quickly and at an acceptable price. As much of the rent to more intensive use of the land has been capitalized by the time a land parcel is sufficiently near the conversion stage to interest a small developer, this acceptable price range is quite small. Frequently, many suitable tracts are not contiguous with already developed acreages and wasteful 'leapfrogging' results. Larger developers, by assembling large tracts in advance of development, are able to produce a more orderly pattern of development. This is in their interest and the interests of the community as well (Clawson and Hall, 1973, p. 30; Kaiser and Weiss, 1975, p. 614).

However, government regulation is probably a more dependable means to this end (leaving aside its other ramifications) and strict development trols have been accompanied by the emergence of large development firms. In fact, as mentioned previously, these regulations provided incentives for the growth of large development firms. Hence, while development industry concentration has worked towards provision of an orderly path of urban expansion, this must be considered to be largely as a response to government policy.

It should also be noted that the heavy private investment in services which accompany the large projects undertaken by major developers reinforces the publicly imposed restrictions on land supply in much the same way that these public restrictions operate. These developers have an incentive to sell all the land they have available in serviced areas before investing further in servicing a new area (Kates, Peat, Marwick, 1973, p. II-36).

Planning, Unit Mix and Innovation

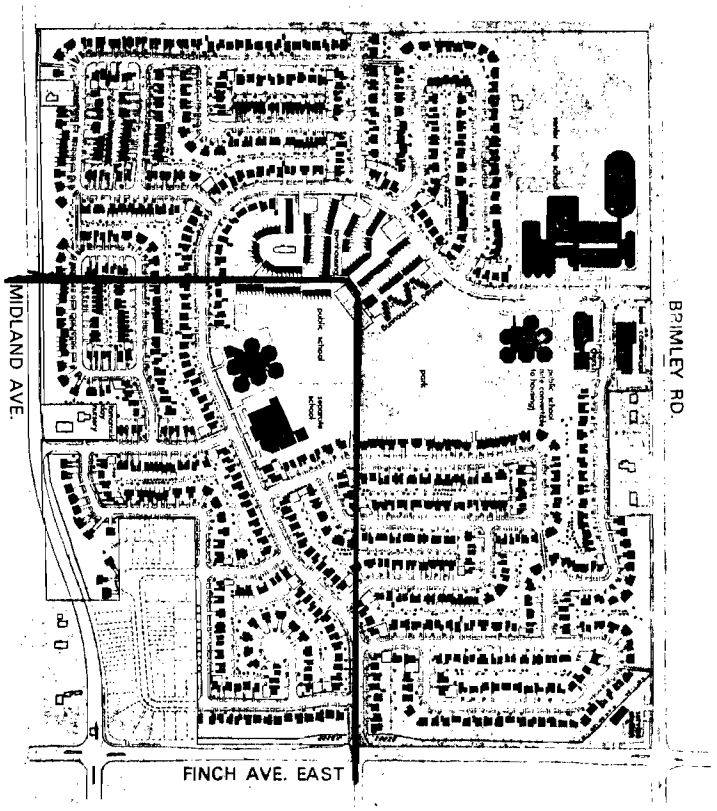
The emergence of large land development firms corresponded with a change in the typical size and design of new subdivisions in the Toronto area. The first large, planned subdivision in the area was E.P. Taylor's Don Mills which was launched in the mid 1950's. Improved street layouts, planned neighbourhood foci at schools and shopping centres, strategically placed parks and open space and a coordinated mix of housing units characterized the development. These features have been repeated in much the same way in the community-size developments which have followed Don Mills, including Bramalea, Meadowvale and Erin Mills. However, such features are not now the exclusive property of large builders or large projects .

Where developer holdings form a patchwork, municipal and regional planning staff will often insist on a co-ordinated, Don Mills style approch (Sewell, 1977, p. 37). Figure 6 shows one of many examples of this occuring in Scarborough.

Large developers, through long term heavy investments in land, services and amenities, can create 'monopolistic' locational advantages for land held in relatively isolated areas largely independent of the land use decisions made by other land owners. Recreational facilities, landscaping, schools, large shopping centres and substantial advertising can attract people into largely undeveloped areas. As each acre of land is developed and used, the value of the remaining acreage increases (Bramalea Limited, 1965). In order to encourage the creation of agglomeration economies initial operation of the project at a loss may be required. Bramalea Limited, for example, sold houses at a loss for five years and gave away 150 acres for industrial sites before reporting its first profit seven years after land assembly in the area began (Magee, 1968, p. 27).

These enormous projects allow single developers to use low price land separated from the main areas of development (although near transportation routes). A developer having sufficient resources to undertake a community-size development can radically alter the development path of a particular area. The site of the Erin Mills project in Mississauga which now has a population of 10,000 would probably still be farmland if the conventional pattern of development had occurred. Plans now call for

Figure 6: Planning Integration of Small Development Tracts



Solid line divides block between two developers

Source: Western Realty Corp.

an eventual population of 170,000 on 7,500 acres including 1,180 acres of industrial parks and 350 acres of retail and office uses (Canadian Builder, May 1977). While the provision of employment functions is important, such projects become viable well short of being self-contained 'new towns'.

It does not seem likely that the structure of the development industry has greatly affected the mix of housing types constructed in the Toronto area. Large developers are diversified, able to provide various types of housing in response to market swings and equipped with the managerial expertise to respond quickly (Financial Post, October 26, 1974). They do not exert an inertial effect on this aspect of the market. While at any one time corporate strategy may emphasize land sales or revenue-producing properties, the nature of market demand is such that this adjustment cannot really be made solely by altering the mix of units coming on stream. Rather, the mix of assets is changed by acquisitions of property or other firms, participation in non-residential developments, or mergers.

Innovation in housing design and response to such innovations is not slowed by development industry concentration. In fact, it may be argued that innovation is encouraged by concentration. In this regard the housing industry is typical of other industrial sectors in terms of undertaking the risks of innovation activities.

Large developers, having greater resources to devote to research and architecture, exposed to less risk of financial disaster arising from the failure of a single project, and able to attract large numbers of potential buyers to their large projects, are favourably positioned to provide new forms of housing. Whether housing choice has, in fact, increased in real terms over the past decades is a matter for debate. Certainly the large developers have not been slow to exploit the two major 'innovations' of recent years, townhousing and condominia.

International Scope of Operations

The Toronto housing market area has experienced a significant degree of foreign participation and, of late, foreign markets have been exploited by Canadian concerns. There is some opinion that foreign investors hold inflated expectations of Canadian real estate in general and bid prices up higher than would be expected otherwise (Spurr, 1976, p. 224). Certainly, more buyers participating in the land market should have the effect of raising prices, however, the foreign presence in the Toronto area market has probably not done so unduly. Most Toronto development firms are operated locally by managers experienced in the local housing market even if a substantial or controlling interest in the company is held by foreign corporations. Direct investment in the development sector by foreign corporations or their subsidiaries has not been pervasive in the Toronto area, nor would this necessarily result in higher prices to consumers; such extra competition and possibly inflated expectations might well result in lower returns.

Canadian development firms' expansion into foreign markets, particularly the United States, is part of their general program of geographical diversification. These investments presently emphasize the development and acquisition of revenue-producing properties although there is also some land sales activity. This diversification represents little drain of capital from Canada as these investments are heavily leveraged with funds borrowed in the United States.

SUMMARY

The evolution of the land development industry in the Toronto area is an ongoing process that is far from complete. It is anticipated that growth and consolidation of the largest firms in the industry will continue in the future and that corporate strategies will continue to change. The development industry operates in an uncertain climate of changing financial arrangements, market demand and government regulation to which the structure of the industry must respond. However, the process of development industry concentration has provided developers with the means to insulate themselves from many of these fluctuations if not to influence them. And development firms show a growing sensitivity to policies affecting regional and national housing markets as they have acquired the ability to transfer operations from one housing market to another.

Much of the process of industry concentration in the development industry has involved an internal restructuring of the

industry without immediately apparent effects on its performance. The increased size of development firms has enabled the industry leaders to lower their costs below those of their smaller competitors through economies of scale and increased bargaining power. While these savings would probably not, in large part, be passed on to consumers ceteris paribus, the evidence does not suggest that housing prices have been raised through the exercise of market power.

Over the past two decades the partnership between developers, lenders and governments that produces suburban subdivisions has changed. Developers have acquired the resources that enable them to take a more influential role in the process. As development industry concentration proceeds, the decisions that shape the growth of Canadian residential areas are made by fewer people and increasingly in the context of large, diversified real estate companies. Although it is difficult to assess the degree to which concentration has freed private decision-making from the dictates of the market and the government, public agencies and private lenders now have a new type of developer to deal with, one who is in part their own creation.

Footnotes

1. The difference between the price of owner-occupied housing and the (capitalized) cost of renting identical housing cannot exceed the value placed by consumers on homeownership itself.

2. Note that figures are not strictly compatible (see notes to Table 4).

3. However, small subdivisions (less than 100 acres) still account for an appreciable proportion of Toronto area developments (Markusen, 1977, p. 100).

4. It has been observed that Toronto area land development companies that are linked by shared directorships or equity positions tend to operate in fairly close proximity to one another. This makes the question of diverting competition, particularly in the land acquisition phase, more significant (Markusen, 1977, p. 87).

5. The land concentration figures are for level I ownership. The ten-firm figure for nominal ownership is 37%. The same studies found concentration of land ownership in the top 25 firms to be 63% (53% for nominal ownership) while dwelling unit approvals by the top 24 firms accounted for 75% of the total. If the two studies had been based on the same time period this divergence might well have been even greater.

6. As well, we must consider the possible understatement of concentration arising from the use of data concerning land owned instead of housing built, and possible overstatement of concentration arising through the restriction of the sample to only 34,000 acres.

7. The housing glut of 1977 would seem to belie this; it certainly indicates that this freedom from fluctuations is far from complete. However, many observers feel that the highly unpredictable housing market of the 1970's has been exceptional.

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